

## State of Rhode Island Revenue Brief

### FY 2006 Cash Collections through February 2006

Beginning in FY 2004, the State of Rhode Island Budget Office presented a more comprehensive assessment of fiscal year-to-date revenue collections. In particular, the Revenue Brief now contains information on the Other General Revenue Sources. These sources include the Gas Tax Transfer, Other Miscellaneous Revenues, the Lottery Transfer, and the Unclaimed Property remittance.

*Users of the report should be cautious when comparing year-to-date growth rates to the revised growth estimate for Other Miscellaneous Revenues and Unclaimed Property as the receipt of these revenues is not continuous. That is, for these two general revenue categories, payments are received at discrete points in time over the course of a fiscal year. Further complicating matters is the fact that the discrete pattern of receipts varies so that payments received do not necessarily occur at the same point in time in each fiscal year.*

#### **Total General Revenues**

	<u>Revised Estimate</u>	<u>Actual YTD</u>	<u>Adjusted YTD</u>
Growth Rates	2.5 %	2.0 %	3.8 %

Fiscal Year 2006 total general revenues collected through February 2006 have increased by 2.0 percent as compared to Fiscal Year 2005 total general revenues collected through February of last year. For the fiscal year-to-date period through February 2006, total general revenues were \$1.843 billion as compared to \$1.807 billion for the same period last year, an increase of \$35.4 million. Due to various causes, which are detailed below, adjustments need to be made to the fiscal year-to-date data for both FY 2005 and FY 2006.

In FY 2005 motor vehicle license and registration revenues were understated by \$2.3 million. This understatement was due to the late posting of interstate trucking payments made to the forty-nine other states and Canada. Until FY 2005, this posting was made in June of the fiscal year. Beginning in FY 2005, this posting was not completed until July of the following fiscal year. Also in FY 2005, the cigarette tax included \$4.8 million of cigarette floor stock tax through February that was not repeated in FY 2006. The floor stock tax is collected on cigarette packs held as inventory on July 1 at 12:01 a.m. following an enacted cigarette tax increase. The cigarette tax was increased to \$2.46 per pack for FY 2005. There was no increase in the cigarette tax in FY 2006.

Further, there was a lag in implementing the change in the General Fund's share of the motor fuel tax, resulting in an overstatement of \$637,811 in July 2004 that was corrected in May 2005. The gas tax transfer to the general fund decreased from \$0.032 per gallon in May and June of FY 2004 to \$0.02 of the State's \$0.30 per gallon motor fuel tax beginning in FY 2005. The gas tax is paid on a one-month lag, so May revenue reflects April receipts and June revenue reflects May receipts. The \$0.032 per gallon allocation was applied to May and June revenue instead of May and June receipts (which are reflected as revenue in June and July). The \$637,811 adjustment corrected this misallocation.

In FY 2005, the Office of Accounts and Controls liquidated a total of \$1.0 million for FY 2004 account payables that had not been processed by agencies that had posted them. In addition, Blue Cross Blue Shield of Rhode Island remitted to the State the contractually required settlement payment for the FY 2004 period in January 2005. The general revenue share of this payment totaled \$3.5 million and continues to be reflected as revenue through FY even though it was accrued back to FY 2004. In December 2004, a business corporations tax payer failed to meet the requirements specified in Rhode Island General Laws, Title 44, Chapter 43, Section 8, Subsection 7(d) and was mandated to pay to the Division of Taxation \$4.2 million. This payment is currently under appeal by the taxpayer. This payment may constitute a one-time recapture of tax credits granted. Finally, in February 2005, the State received a one-time payment of \$6.53 million from the Procaccianti Group to retire all outstanding debt it owed the Rhode Island Depositors Economic Protection Corporation (DEPCO).

In FY 2006, the pattern of posting interstate trucking payments late recurred, resulting in FY 2006 motor vehicle license and fees again being understated by \$2.3 million. Taxes on insurance companies are understated by \$442,445 due to the August 2005 transfer of FY 2005 retaliatory fees. For the previous nine fiscal years, this transfer was made in June. As a result, this transfer is reflected as a reduction of insurance companies revenues in fiscal year-to-date 2006.

In addition, it should be noted that the General Assembly enacted a change in the gas tax transfer in the FY 2006 budget. In particular, \$0.01 of the State's \$0.30 per gallon excise tax on motor fuel was redistributed from the general fund to the Rhode Island Public Transit Authority. The transfer rate to the general fund was \$0.02 of the \$0.30 per gallon gas tax in the first eight months of FY 2005. In the first eight months of FY 2006, the motor fuel transfer rate to the general fund is \$0.01 of the \$0.30 per gallon motor fuel tax. Further, the General Assembly enacted in the FY 2006 budget an increase in the tax on other tobacco products from 30.0 percent of the wholesale price to 40.0 percent as of July 1, 2005.

The hospital licensing fee rate change from 3.03 percent in FY 2005 to 3.65 in FY 2006 requires an adjustment for comparability between fiscal years. Moreover, the Department of Mental Health Retardation and Hospitals (MHRH) disproportionate share payment of \$12.2 million reflects a decreased rate of reimbursement from 175.0 percent of medical costs rendered which have not been included in federal matching or reimbursement arrangements to 100.0 percent. Additionally, the indirect cost recovery transfer rate applied to restricted receipts, which are recorded as general revenues, increased from 7.0 percent to 10.0 percent on April 1, 2005, a conversion in fiscal year-to-date revenues is required to make FY 2005 and FY 2006 comparable. Also, \$2.7 million in child support enforcement collections were collected through February 2006 but not posted to the general fund until March 1, 2006 due to approval complexities in the Treasury Department and coding issues in the Department of Accounts and Controls, both attributable to the transfer of the program from the Department of Administration to the Department of Human Services.

Further, in FY 2006, two prior year sources of general revenue have been reclassified as restricted receipts. The General Assembly converted the pharmaceutical rebates received by the Department of Elderly Affairs from the Rhode Island Pharmaceutical Assistance to the Elderly

(RIPAE) program from general revenue to a restricted receipt effective July 1, 2005. Thus, FY 2006 miscellaneous departmental revenues no longer contain these rebate revenues and an adjustment must be made to render FY 2006 collections comparable to FY 2005 collections. In the year-to-date FY 2005 period, these RIPAE rebates totaled \$1.7 million.

As noted in June's *State of Rhode Island Revenue Brief Special Report on Preliminary FY 2005 Revenues*, the Rhode Island Auditor General (RIAG) determined that the State's treatment of the local match for Early and Periodic Screening, Diagnosis and Treatment (EPSDT) services for special needs students as a state revenue is incorrect. EPSDT services are considered Medicaid eligible services and require state and/or local monies as a match for federal payments. The Medicaid financing split is approximately 55.0 percent federal and 45.0 percent state or local. Currently, the federal government's portion of such expenses is a reimbursement to the local education agency for special needs expenses already incurred. The federal monies are passed through by the state from the federal government to the local education agency and thus the local match is not truly revenue to the state. In FY 2005, \$7.2 million of EPSDT services local match reimbursements had been received through February.

Accounting for these adjustments yields an adjusted rate of growth for the fiscal year-to-date period through February 2006 of 3.8 percent. It should be noted that the adjusted year-to-date growth rate is not necessarily indicative of the projected annual growth. The FY 2006 revised growth estimate, adopted at the November 2005 Revenue Estimating Conference (REC), is an increase of 2.5 percent in total general revenues over preliminary FY 2005 collections.

### **Taxes and Departmental Receipts**

	<u>Revised Estimate</u>	<u>Actual YTD</u>	<u>Adjusted YTD</u>
Growth Rates	2.7 %	2.3 %	3.5 %

FY 2006 taxes and departmental receipts collected through February 2006 have increased by 2.3 percent as compared to FY 2005 collections for the comparable period a year ago. For the fiscal year-to-date period ending February 2006, total taxes and departmental receipts were \$1.650 billion as compared to \$1.612 billion for the same period last fiscal year, an increase of \$37.9 million.

Several adjustments must be made to taxes and departmental receipts in FY 2006. They consist of the insurance companies retaliatory fee transfer, the late motor vehicle licenses and fees' interstate trucking payments, smokeless tobacco tax rate increase, hospital licensing fee increase, change in reimbursement of the disproportionate share payment, late posting of child support enforcement collections, and increase to indirect cost recovery fees. These increase taxes and departmental receipts on an adjusted basis by \$1.9 million in FY 2006. More adjustments are required in FY 2005 to make taxes and departmental receipts comparable with FY 2006. The late motor vehicle licenses and fees' interstate trucking payments, the non-recurrence of cigarette floor stock tax, the re-categorization of pharmaceutical rebates, the one-time business corporation tax recapture, and the EPSDT shift from general revenue to restricted receipts decrease FY 2005 taxes and departmental receipts on an adjusted basis by \$15.7 million. Accounting for these modifications yields a FY 2006 adjusted growth rate in taxes and

departmental receipts of 3.5 percent. The FY 2006 revised growth estimate, adopted at the November 2005 REC projects an increase of 2.7 percent in total taxes and departmental receipts over preliminary FY 2005 collections.

### **Other General Revenue Sources**

	<u>Revised Estimate</u>	<u>Actual YTD</u>	<u>Adjusted YTD</u>
Growth Rates	1.0 %	-1.3 %	6.7 %

FY 2006 other general revenue sources collected through the first eight months of FY 2006 have decreased by 1.3 percent as compared to collections through the first eight months of Fiscal Year 2005. For the fiscal year-to-date period ending February 2006, total other general revenue sources were \$193.0 million as compared to \$195.5 million for the same period last year, a decrease of \$2.5 million. It is important to note that the General Assembly decreased the general fund's share of the \$0.30 per gallon motor fuel tax to \$0.01 from \$0.02 beginning in July of FY 2006.

In FY 2005, the overpayment of the July 2004 gas tax transfer to the general fund resulted in an overstatement of \$637,811 through May of FY 2005. In January 2005, Blue Cross Blue Shield made a \$3.6 million retroactive payment attributable to FY 2004. This payment continued to overstate FY 2005 revenues through the remainder of the fiscal year. Further, the portion of the liquidated FY 2004 Accounts Payable not reversed in February amounted to \$1.0 million. The \$6.5 million Procaccianti DEPCO payment received in February 2005 was unanticipated revenue in FY 2005 that won't repeat. Accounting for these FY 2005 adjustments and the FY 2006 decrease in the general fund's share of the gas tax transfer yields adjusted FY 2006 growth for other general revenue sources of 6.7 percent. The FY 2006 revised growth estimate for other general revenue sources projects an increase of 1.0 percent in other general revenue sources over preliminary FY 2005 collections.

### **Total Taxes**

	<u>Revised Estimate</u>	<u>Actual YTD</u>	<u>Adjusted YTD</u>
Growth Rates	2.6 %	2.7 %	3.4 %

Total tax revenues for the fiscal year-to-date period through February 2006 were \$1.450 billion, or 2.7 percent, more than the \$1.411 billion in total taxes collected in FY 2005 through February 2005. Listed below are the modifications that must be made to determine the adjusted growth rate for total taxes.

In FY 2005, \$2.3 million in motor vehicle license and fee revenues were not reflected due to the late payment of FY 2004 interstate trucking fees. As a result of the cigarette tax increase from FY 2004, \$4.8 million of cigarette floor stock tax was collected in FY 2005 through February and did not repeat in FY 2006. Motor vehicle license and fee revenues were again underreported in FY 2006 by \$2.3 million as a result of the late payment of FY 2005 interstate trucking fees. Further, a business corporation tax payer was mandated to pay \$4.2 million in prior year taxes in December of FY 2005. In FY 2006, insurance companies gross premiums taxes are understated

by \$442,445 due to the late transfer of FY 2005 retaliatory fees. Finally, the tax on smokeless tobacco products increased by 10.0 percentage points on July 1, 2005.

These modifications yield an adjusted growth rate of 3.4 percent in total taxes. The FY 2006 growth estimate for tax collections, adopted at the Revenue Estimating Conference in November, is 2.6 percent over preliminary FY 2005 tax collections.

### **Personal Income Taxes**

	<u>Revised Estimate</u>	<u>Actual YTD</u>	<u>Adjusted YTD</u>
Growth Rates	3.8 %	0.0 %	0.0 %

Actual personal income tax collections for FY 2006 through February 2006 are flat, with no increase compared to the same period last fiscal year. The FY 2006 fiscal year-to-date growth rate continues to fall below the FY 2006 revised growth estimate, adopted at the Revenue Estimating Conference in November, of 3.8 percent over preliminary FY 2005 personal income tax collections.

Income tax withholding payments have increased by \$10.5 million, or 2.0 percent, through the first eight months of FY 2006 when compared to the same period in FY 2005. The 2.0 percent actual growth in cash withholding payments between FY 2006 and FY 2005 is less than the November Revenue Estimating Conference's revised cash growth estimate for income tax withholding payments of 4.7 percent. The low growth in income tax withholding payments received is attributable in part to unusually high income tax withholding payments the State received in FY 2005. In FY 2005, a number of employees of a Rhode Island based financial institution received severance payments that were significant in amount. Federal law requires that such payments be subject to withholding at a rate of 28.0 percent which equates to a 7.0 percent withholding rate at the state level. In the first six months of FY 2005, extraordinary withholding payments totaling \$13.0 million were made to the State as a result of this action. Since these income tax withholding payments will not be repeated in FY 2006, actual fiscal year-to-date 2006 collections are less than the anticipated amount estimated at the November 2005 REC (the REC participants were not made aware of these extraordinary income tax withholding payments at the time of the conference). The lagging income tax withholding payments are of concern since on average, over the past five fiscal years, 66.9 percent of income tax withholding payments are collected in the first eight months of the fiscal year.

FY 2006 year-to-date income tax refunds paid are greater by \$23.2 million, or 34.0 percent, compared to the same period in FY 2005. The 34.0 percent actual growth in cash income tax refunds paid between FY 2006 and FY 2005 far exceeds November's revised growth rate for income tax refunds paid of 8.0 percent. Still, in spite of this surge in income tax refunds paid, on average over the last five fiscal years only 33.0 percent of total income tax refunds are paid through February of the fiscal year.

There has also been an increase in final income tax payments received. Fiscal year-to-date final income tax payments are up \$8.9 million, or 37.0 percent, through February of FY 2006 as compared to final payments for the first eight months of FY 2005. The 37.0 percent actual

growth in cash final income tax payments received between FY 2006 and FY 2005 is substantially greater than the revised cash growth rate for final income tax payments of 1.9 percent. Despite this sizeable difference in growth rates, the increase in final income tax payments received is minor given that, on average over the last five fiscal years only 14.5 percent of total final income tax payments are received in the first eight months of the fiscal year.

Finally, with respect to estimated income tax payments, year-to-date FY 2006 collections are up \$3.6 million from FY 2005 collections at this time last year. This increase translates into a fiscal year-to-date growth rate of 2.7 percent. The 2.7 percent actual growth in cash estimated income tax payments received between FY 2006 and FY 2005 lags the enacted cash growth rate for estimated income tax payments received of 5.6 percent. The lower than expected growth in estimated income tax payments may be significant given that, on average, over the last five fiscal years, 67.4 percent of total estimated income tax payments are made by the end of February.

### **Sales and Use Taxes**

	<u>Revised Estimate</u>	<u>Actual YTD</u>	<u>Adjusted YTD</u>
Growth Rates	4.0 %	3.4 %	3.4%

Sales and use tax collections in FY 2006 are up \$19.4 million, or 3.4 percent, relative to last fiscal year at this time. As always, the monthly sales tax receipts reported here reflect the prior month's retail sales activity. For both FY 2005 and FY 2006, the state's sales tax rate is 7.0 percent.

On July 1, 2005 at 12:01 am, prepayment of the sales tax on retail cigarette sales was initiated. The sales and use tax now includes the prepaid sales tax receipts, yielding no difference between the actual and adjusted growth rate for sales and use tax collections. Fiscal year-to-date collections of prepaid sales tax on retail cigarette sales through February 2006 total \$11.7 million. The 3.4 percent growth in sales and use tax revenues for fiscal year-to-date 2006 still lags behind the revised FY 2006 growth rate of 4.0 percent over preliminary FY 2005 sales and use tax collections but is an improvement over January's year-to-date growth of 2.0 percent.

According to the Division of Taxation, within the sales tax components, registry receipts were down 6.7 percent in the first eight months of FY 2006 when compared to same period last fiscal year. Net sales tax receipts remitted directly to the Division of Taxation posted a gain of 5.2 percent during FY 2006's first eight months versus the first eight months of FY 2005. Providence Place Mall (PPM) sales tax receipts were up just 0.03 percent through February of FY 2006 versus the same period in FY 2005.

### **General Business Taxes**

	<u>Revised Estimate</u>	<u>Actual YTD</u>	<u>Adjusted YTD</u>
Growth Rates	0.2 %	42.7 %	54.0 %

In general, it is not possible at this time to begin to discern patterns in this year's general business tax collections. Most general business taxes are paid in March and June of the fiscal

year, with 40.0 percent of total tax liability due in March and 60.0 percent of total tax liability due in June. The exceptions to this pattern are business corporations taxes and health care provider assessments. In the FY 2001 to FY 2005 period, an average of 5.8 percent of total business corporations taxes were collected in the first eight months of the fiscal year. This low collection rate is due to the taking of substantial refunds in the months of October, November, and January of most fiscal years. The health care provider assessment collections flow more evenly into the general fund over the course of the fiscal year, with a five-year average percent of total collections of 63.3 percent for the first eight months of the fiscal year.

Total general business taxes collected in the fiscal year-to-date February 2006 period were 89.9 million or \$26.9 million more than the \$63.0 million collected for the same period in FY 2005. Year-to-date growth in FY 2006 is 42.7 percent. In December 2004, \$4.2 million was collected from a business corporation taxpayer making a one-time payment as mandated by the Division of Taxation for the failure to meet requirements to qualify for "Tax Incentives for Capital Investment in Small Businesses" as specified in Rhode Island General Laws. In August of FY 2006, a debit of \$442,445 was made in insurance companies taxes to pay for FY 2005 retaliatory fees, requiring an adjustment to general business taxes. As a result, adjusted FY 2006 growth in general business taxes is 54.0 percent. The revised estimated growth rate as determined by the November 2005 Revenue Estimating Conference is 0.2 percent.

FY 2006 year-to-date business corporations taxes are up \$17.3 million, or 58.1 percent, from last fiscal year at this time. It should be noted that the December 2004 payment of \$4.2 million constitutes a one-time recapture of tax credits granted. The taxpayer has appealed the Division of Taxation's decision, however the appeal has not yet been decided. Further, the estimated payments of \$7.5 million made by a taxpayer in December 2004 was determined not to be made on a large dividend or capital gain earned, and such payments are expected to recur annually.

Health care provider assessment taxes through February 2006 were \$30.9 million, an increase of 1.5 percent from the same period in FY 2005. The cash balance in bank deposit tax collections is \$42,330 through the first eight months of FY 2006, a decrease of 35.3 percent compared to FY 2005 collections through February 2005. They tend to post irregularly until March, when the first 40.0 percent of total tax liability is due.

Public utilities gross earnings taxes are up 1,467.5 percent, or \$6.8 million. In September, a public utilities gross earnings tax filer paid \$5.0 million in taxes in order to meet "safe harbor" provisions for its tax year 2005 estimated liability. In calendar year 2004, the public utility's gross earnings liability was \$29.3 million. In March 2005, an estimated payment of \$10.4 million was made and in June 2004 another estimated payment of \$14.0 million was made. In order to meet the "safe harbor," the public utility paid an additional \$5.0 million in September 2005. Although this \$5.0 million is related to Fiscal Year 2005, it will not be accrued back as it is an unusually late payment rather than an erroneous payment.

The insurance companies tax is up 31.6 percent year-to-date. This improvement is in spite of the late transfer of \$442,445 in retaliatory fees claimed on insurance companies taxes collected for the 2004 calendar year. These fees should have been posted in FY 2005 when the insurance companies' tax returns were collected. Instead, the retaliatory fees were transferred late, during

FY 2006, creating an understatement in year-to-date collections through February 2006. Adjusting for the late transfer results in a growth rate of 43.0 percent through February 2006.

Finally, financial institutions tax refunds exceed financial institutions tax payments by \$513,955. In FY 2005, financial institutions tax refunds exceeded financial institutions tax payments by \$1.7 million. Thus, compared to FY 2005, FY 2006 net financial institutions taxes on a year-to-date basis are 63.9 percent less or \$1.2 million more than for the same period in FY 2005. In FY 2005, by February, a large refund had been issued to a financial institution and no comparable refund has been issued to date this fiscal year.

### **Excise Taxes Other Than the Sales and Use Tax**

	<u>Revised Estimate</u>	<u>Actual YTD</u>	<u>Adjusted YTD</u>
Growth Rates	-2.8 %	-5.9 %	-2.4 %

Excise taxes other than sales and use taxes collected in the fiscal year-to-date February 2006 period totaled \$115.2 million or \$7.2 million less than the \$122.4 million collected for the same period in FY 2005. Motor vehicle receipts were understated by \$2.3 million for July 2004 due to a delay in the posting of June 2004 interstate trucking payments by the Division of Motor Vehicles. In FY 2006, June 2005 interstate trucking payments were again made in July causing an understatement in motor vehicle license and fee revenues for the second straight year. Further, in FY 2005 the State raised its cigarette excise tax from \$1.71 to \$2.46 per pack of 20 cigarettes. This tax increase generated approximately \$4.8 million in cigarette floor stock tax revenues through February of FY 2005. No such payments are expected in FY 2006. Finally, the enacted 33.3 percent increase in the tax rate on smokeless tobacco products adds \$412,484 to cigarette tax revenues in FY 2006. Adjusting for the above postings yields an adjusted growth rate of -2.4 percent in excise taxes other than the sales and use tax.

Rhode Island cigarette tax receipts are comprised of excise taxes collected on the sale of cigarettes, smokeless tobacco (which also includes cigars and pipe tobacco), and a one-time cigarette floor stock tax. The cigarette floor stock tax is imposed only when there is an increase in the excise tax on cigarettes. In FY 2005, the cigarette excise tax was increased by \$0.75 per pack of 20 cigarettes. In FY 2006, no increase in the cigarette excise tax was passed into law and, as a result, no cigarette floor stock tax revenues are expected for this fiscal year. Although there was no change in the excise tax rate on cigarettes from FY 2005 to FY 2006, the smokeless tobacco tax rate was increased from 30.0 percent to 40.0 percent of the wholesale cost of the smokeless tobacco product on July 1, 2005. After adjusting for the cigarette floor stock tax and the smokeless tobacco tax rate increase of 10.0 percentage points, total cigarette tax receipts for the first eight months of FY 2006 are down 5.0 percent compared to the same period a year ago. This adjusted rate of growth is close to the revised FY 2006 rate of growth of -4.9 percent over preliminary FY 2005 cigarette tax collections, adopted at the November 2005 Revenue Estimating Conference.

Finally, the change in cigarette consumption is determined. First, the value of the cigarette floor stock tax and the smokeless tobacco products tax is netted out of the data. The result is a



decrease in Rhode Island cigarette consumption of 4.9 percent for the first eight months of FY 2006 versus the first eight months of FY 2005.

### **Other Taxes**

	<u>Revised Estimate</u>	<u>Actual YTD</u>	<u>Adjusted YTD</u>
Growth Rates	-5.4 %	-0.7 %	-0.7 %

Total other taxes collected through February of FY 2006 totaled \$34.6 million versus \$34.8 million in other taxes collected during the same period last fiscal year, a decrease of \$249,805, or -0.7 percent. Inheritance tax collections totaled \$21.9 million through February of FY 2006, or -1.9 percent below the \$22.3 million collected through the eighth month of FY 2005. Given the fact that inheritance tax collections are volatile, it is not possible to make any valid comments about this revenue source. Racing and athletics tax collections through February of FY 2006 are down 14.1 percent relative to the same period in FY 2005. Realty transfer taxes are up by a moderate 5.8 percent through February of FY 2006 versus February of FY 2005. The revised FY 2006 other taxes estimate, adopted at the November 2005 Revenue Estimating Conference, is -5.4 percent over preliminary FY 2005 total other taxes.

### **Total Departmental Receipts**

	<u>Revised Estimate</u>	<u>Actual YTD</u>	<u>Adjusted YTD</u>
Growth Rates	3.0 %	-0.4 %	4.0 %

FY 2006 year-to-date departmental receipts total \$200.1 million, a decrease of \$738,251 over the amount that was collected last fiscal year at this time. Actual departmental receipts for FY 2006 are down 0.4 percent when compared to receipts collected for the same period a year ago. The revised FY 2006 growth rate is 3.0 percent over preliminary FY 2005 departmental receipt collections. The decrease in the projected growth rate established at the November 2005 Revenue Estimating Conference is primarily due to two adjustments in the data for FY 2005. The removal of \$22.3 million of special education services local match revenues have been accounted for in the November Revenue Estimating Conference. Also, the reassignment of the pharmaceutical rebates received under the RIPAE program as restricted revenues effective July 1, 2005 by the General Assembly are no longer categorized as general revenues in FY 2006 departmental revenue estimates. Therefore, the FY 2006 revised growth projection should no longer overstate expected departmental revenue growth.

In June 2005, the General Assembly re-categorized the pharmaceutical rebates received under the RIPAE program as restricted revenues effective July 1, 2005. Thus, these rebates are no longer being posted as general revenues in FY 2006 even though they were posted as such in FY 2005. Through February, FY 2005 RIPAE receipts totaled \$1.7 million. Similarly, the Auditor General determined that the revenues from the local match for EPSDT should no longer be recorded as general revenues. In FY 2005 through February, \$7.2 million of general revenues were recorded for EPSDT reimbursements. Also in June 2005, the General Assembly increased the Hospital Licensing Fee from 3.03 percent to 3.65 percent of net patient services revenue due on or before December 15, 2005. In addition, on December 15, 2005, \$12.2 million in

disproportionate share hospital, or “dish”, payments were made. The FY 2006 “dish” payment was made at the 100 percent reimbursement rate, a decrease of \$13.4 million from FY 2005 when the payment was made at the temporary 175 percent reimbursement rate. Further, the General Assembly increased the rate of transfer for indirect cost recovery from 7.0 to 10.0 percent in FY 2006. Adjusting for re-categorization of RIPAE pharmaceutical rebates, the receipt of EPSDT monies in FY 2005, the decrease in the “dish” reimbursement and the increased indirect cost recovery rate yields an adjusted growth rate of 2.6 percent for FY 2006 departmental receipts.

Within the total departmental receipt components, licenses and fees are up \$18.6 million, or 15.0 percent, through February of FY 2006 versus FY 2005 through February. The hospital licensing fee rate change accounts for most of the difference, with \$71.2 million paid through February 2006 compared to \$58.6 paid through February 2005. A \$1.9 million decrease in the Intermediary Hospital Rate Settlement payments is more than offset by the combination of E-911 wireless surcharge collections which were \$1.2 million higher year-to-date in FY 2006 than FY 2005, health facilities licensure fees that have generated \$1.1 million more year-to-date in FY 2006 over year-to-date FY 2005, \$1.0 million from the irregularly received multi-state brokerage firm settlement payments, and \$1.0 million in Sixth Division court fees. Several smaller increases contribute to the net growth of 15.0 percent.

Fines and penalties are up \$1.7 million through the eighth month of FY 2006 versus the eighth month of FY 2005. New collection efforts by the Division of Taxation have been implemented and contributed to an increase in interest and penalties collected on overdue taxes and interest collected on overdue taxes. In particular, the denial of driver and/or professional license renewal to tax delinquents has caused some taxpayers to pay outstanding taxes owed including penalties and interest thereon. Tax delinquents may also enter into a time payment agreement with the Division of Taxation to begin paying such obligations in order to renew a drivers and/or professional license. As such, penalties on overdue taxes collected have risen by \$1.2 million through February 2006 versus penalties on overdue taxes collected through February 2005. Banking enforcement fees have increased by \$626,216 through February of FY 2006 compared to the same period last fiscal year. A fine of \$760,000 was received in July for a consent order between the Department of Business Regulation and a regulated entity fined for illegally cashing checks.

Sales and services revenues are down \$13.0 million, or –37.5 percent, through February of FY 2006 versus the same period last fiscal year. The FY 2006 decrease in sales and service revenues is a result of the late posting of “dish” payments as noted previously. The \$12.2 million payment is lower than the \$25.6 million received in FY 2005 because of the expiration of a two year federal exemption providing 175.0 percent reimbursements to MHRH for disproportionate share payments. In FY 2006, these “dish” payments revert back to 100.0 percent reimbursement. Adjusting for the change in reimbursement rate results in an 11.2 percent decrease for the first eight months of FY 2006 over the first eight months of FY 2005.

Finally, miscellaneous departmental revenues are down \$8.0 million, or 33.4 percent, through the eighth month of FY 2006 versus the eighth month of FY 2005. The drop in miscellaneous departmental revenues is primarily the result of the reclassification of RIPAE pharmaceutical

rebates and the elimination of the EPSDT accounting entry in FY 2006, the total of which was \$8.9 million in FY 2005. The timing of child support collections further contributes to the decrease in miscellaneous departmental revenues. Through February 2005, \$2.3 million in child support collections were deposited as general revenues. The Department of Human Services initiated wire transfers totaling \$2.7 million of child support enforcement collections in general revenues through January 31, 2006 but the funds did not post to the general fund until March 1, 2006. Other adjustments must be made for the cost recovery rate change in FY 2006. The adjusted growth rate for miscellaneous departmental revenues is 12.2 percent through February of FY 2006 over the same period in FY 2005.

### **Gas Tax Transfer**

	<u>Revised Estimate</u>	<u>Actual YTD</u>	<u>Adjusted YTD</u>
Growth Rates	-47.2 %	-50.9 %	8.7 %

The gas tax transfer is down 50.9 percent for year-to-date FY 2006 when compared to FY 2005 for the same period. The revised growth rate estimate for the gas tax transfer is -47.2 percent over the preliminary FY 2005 transfer. The majority of this decrease in the growth rate of the gas tax transfer on a fiscal year-over-fiscal year basis is due to a decrease in the allocation of the State's \$0.30 per gallon motor fuel tax that is devoted to the general fund. In FY 2006, \$0.01 per gallon was allocated to the general fund compared to \$0.02 per gallon in FY 2005. In FY 2005, there was an overstatement of \$637,811 in July 2004 that was not corrected until May 2005. This overstatement was due to the temporary increase in the State's share of the motor carrier fuel use tax to \$0.032 per gallon for May and June 2004. This higher rate had been applied to April and May gas tax collections, which were received in May and June, but should have been applied to May and June gas tax collections received in June and July. Adjusting for this change yields an adjusted rate of growth of 8.7 percent on a fiscal year-over-year basis.

### **Other Miscellaneous Revenues**

	<u>Revised Estimate</u>	<u>Actual YTD</u>	<u>Adjusted YTD</u>
Growth Rates	-36.1 %	-83.8 %	62.5 %

Other miscellaneous revenues are down 83.8 percent through February of FY 2006 when compared to the same period one year ago. FY 2006 year-to-date collections total \$2.0 million compared to \$12.3 million collected by this time last fiscal year. The revised 2006 growth rate is -36.1 percent over preliminary actual FY 2005 collections. The actual year-to-date growth in other miscellaneous revenues is not a surprise given the lack of consistency in typical receipt patterns. Of the \$12.3 million collected in the first eight months of FY 2005, \$3.5 million is attributable to FY 2004 for the Blue Cross Blue Shield payment and an additional \$6.5 million is the one-time payment to DEPCO by the Procaccianti Group for past loan defaults. Further, \$1.0 million is attributable to the portion of the office of Accounts and Controls liquidation of accounts payable in January 2006 which were not reversed in February 2006. Accounting for these modifications, other miscellaneous revenues are up 62.5 percent.

### **Lottery Transfer**

	<u>Revised Estimate</u>	<u>Actual YTD</u>	<u>Adjusted YTD</u>
Growth Rates	5.7 %	6.3 %	6.3 %

The lottery transfer to the general fund through February 2006 is up 6.3 percent compared to the fiscal year-to-date period through February 2005. At \$187.7 million for the first eight months of FY 2006 and \$176.6 million for the first eight months of FY 2005, the lottery transfer is higher than the estimate of 5.7 percent adopted at the November 2005 Revenue Estimating Conference. There were no changes made to the distribution of video lottery net terminal income (NTI) in the FY 2006 budget. In the first eight months of FY 2006, the State's share of video lottery NTI grew 7.4 percent versus the same period in FY 2005. This is an improvement over the fiscal year-to-date through January growth rate of 5.7 percent though it still falls short of the revised growth estimate of 8.7 percent adopted at the November 2005 Revenue Estimating Conference. The transfer to the State general fund from instant and monitor games is up 1.2 percent through February of FY 2006 versus the same period last fiscal year. The November Revenue Estimating Conference's revised FY 2006 growth rate estimate for instant and monitor games was -6.1 percent.

Rosemary Booth Gallogly, State Budget Officer  
March 8, 2006

# STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

## February 2006 Revenue Report

(Fiscal Year 2006)

	<b>FY 2005</b>	<b>FY 2006</b>	<b>Actual</b>	<b>Revised</b>
	<b>YTD February</b>	<b>YTD February</b>	<b>Growth</b>	<b>Growth</b>
<b>Personal Income Tax</b>	\$ 620,773,640	\$ 620,583,342	0.0%	3.8%
<b>General Business Taxes</b>				
Business Corporations*	\$ 29,817,873	\$ 47,140,154	58.1%	-7.6%
Public Utilities Gross Earnings	\$ 460,229	\$ 7,213,891	1467.5%	12.7%
Financial Institutions	\$ (1,673,856)	\$ (513,955)	-69.3%	467.4%
Insurance Companies	\$ 3,875,909	\$ 5,100,909	31.6%	6.9%
Bank Deposits	\$ 65,413	\$ 42,330	-35.3%	5.0%
Health Care Provider Assessment	\$ 30,434,446	\$ 30,883,580	1.5%	3.4%
<b>Excise Taxes</b>				
Sales and Use	\$ 570,110,222	\$ 589,464,330	3.4%	4.0%
Motor Vehicle	\$ 22,033,819	\$ 23,714,309	7.6%	3.7%
Motor Fuel	\$ 612,831	\$ 688,263	12.3%	-54.5%
Cigarettes	\$ 92,429,644	\$ 83,653,317	-9.5%	-4.9%
Alcohol	\$ 7,311,386	\$ 7,131,021	-2.5%	4.4%
Controlled Substances	\$ -	\$ -	-	-
<b>Other Taxes</b>				
Inheritance and Gift	\$ 22,284,644	\$ 21,850,478	-1.9%	-15.1%
Racing and Athletics	\$ 2,699,584	\$ 2,318,653	-14.1%	-9.8%
Realty Transfer	\$ 9,816,000	\$ 10,381,292	5.8%	17.9%
<b>TOTAL TAXES</b>	<b>\$ 1,411,051,784</b>	<b>\$ 1,449,651,914</b>	<b>2.7%</b>	<b>2.6%</b>
<b>Departmental Receipts</b>				
Licenses and Fees	\$ 123,884,697	\$ 142,521,563	15.0%	-100.0%
Fines and Penalties	\$ 18,167,875	\$ 19,860,831	9.3%	-100.0%
Sales and Services	\$ 34,721,858	\$ 21,692,070	-37.5%	-100.0%
Miscellaneous	\$ 24,038,447	\$ 16,000,162	-33.4%	-100.0%
<b>TOTAL DEPARTMENTAL RECEIPTS</b>	<b>\$ 200,812,877</b>	<b>\$ 200,074,626</b>	<b>-0.4%</b>	<b>3.0%</b>
<b>TAXES AND DEPARTMENTALS</b>	<b>\$ 1,611,864,661</b>	<b>\$ 1,649,726,540</b>	<b>2.3%</b>	<b>2.7%</b>
<b>Other General Revenue Sources</b>				
Gas Tax Transfer	\$ 6,564,014	\$ 3,220,557	-50.9%	-47.2%
Other Miscellaneous Revenues	\$ 12,251,878	\$ 1,984,775	-83.8%	-36.1%
Lottery Transfer	\$ 176,641,647	\$ 187,749,646	6.3%	5.7%
Unclaimed Property	\$ -	\$ -	-	-
<b>TOTAL OTHER SOURCES</b>	<b>\$ 195,457,539</b>	<b>\$ 192,954,978</b>	<b>-1.3%</b>	<b>1.0%</b>
<b>TOTAL GENERAL REVENUES</b>	<b>\$ 1,807,322,200</b>	<b>\$ 1,842,681,518</b>	<b>2.0%</b>	<b>2.5%</b>

\* Business Corporations tax includes both corporate income tax and franchise tax collections.